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## REPORT

ON THE

DEPARTMENT OF DEFENSE ROLE IN THE SALE OF  
MILITARY EQUIPMENT TO THE ISLAMIC REPUBLIC  
OF IRAN: OPERATION SNOWBALL AND OPERATION  
CROCUS

OF THE

COMMITTEE ON ARMED SERVICES  
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION



JULY 1987

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HOUSE OF REPRESENTATIVES,  
COMMITTEE ON ARMED SERVICES,  
*Washington, DC, July 27, 1987.*

MEMORANDUM FOR MEMBERS, COMMITTEE ON ARMED SERVICES

Subject: Report of the House Armed Services Committee on the role of the Pentagon in the sale of TOW antitank missiles, owned by the U.S. Army, to the Islamic Republic of Iran.

The report reviews Army regulations covering such sales and examines the interaction between the Army and the Pentagon to determine pricing and other logistics before the weapons were transferred to the CIA.

LES ASPIN,  
*Chairman, Armed Services Committee.*

Approved for Printing: Les Aspin.

(III)





## PREFACE

The attached report is based on interviews with 31 persons involved in the Department of Defense role in the sale of military equipment to the Islamic Republic of Iran. The probe was begun at the direction of Chairman Les Aspin in November 1986, shortly after the sale of equipment became public knowledge.

The scope of the investigation was confined to those aspects that involved the Department of Defense. It thus begins the order given to the Department to supply TOW missiles and ends as the weapons are successively turned over to the Central Intelligence Agency. This probe did not concern itself with secret bank accounts in Switzerland or Iranian intermediaries or any of the other many aspects of this issue that did not involve the jurisdiction of the House Committee on Armed Services. No persons outside the Department of Defense were interviewed. Thus, the linkages between the Defense Department and the Central Intelligence Agency were covered only at the Defense Department end.

The question of how the price of the TOW missiles was determined quickly became the main point of public attention and the main focus of the probe as well. This report devotes a separate chapter to the pricing issue.

At the direction of Chairman Aspin, the classified version of this report plus the record of all interviews carried out by the staff have been supplied to the House Select Committee to Investigate Covert Arms Transactions with Iran.

This report is the product of the work of the following professional staff members of the Committee on Armed Services: Warren L. Nelson; William T. Fleshman, Jr.; John V. Sullivan; and Nora Slatkin.



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## FINDINGS

The Army was called on to supply 4,508 Basic TOW missiles (of which 2,008 were delivered), quantities of 234 types of parts for the Hawk missile system (of which some or all of the quantities for 221 were shipped), two Hawk missile radars (of which none were delivered), and additional quantities of 30 Hawk parts (of which none were delivered).

There was no conspiracy or conscious effort on the part of the Defense Department to hold the price of the TOW missiles low in order to generate "profits" that could be used to aid the contras. The price was plucked from a catalog by a major, and was later raised twice. Although the pricing issue reached the three-star level, price figures were up the chain of command, not down.

The Army priced the weapons under the Economy Act. Under the law, this is the appropriate vehicle for determining the prices of goods and services transferred to another government agency.

The price for which the TOWs were sold to the CIA was probably not the "right" price for a myriad of reasons. Major errors were found in the Army's data base—many of these errors originated long before an arms deal with Iran was ever conceived. There were three key errors: First, the price that the major picked from the catalog was for the wrong model of TOW. Second, the price given for the wrong model was wrong—it was too low. And, third, the price given for the right model was wrong—it was too high. By the committee staff's calculation, had the Army followed Army regulations, the price charged for the TOWs would have averaged \$4819 rather than \$3469. In other words, there was an undercharge of 28 percent.

Even if Army regulations had been studiously adhered to, there is reason to question whether the "right" price would have been charged. The Army regulations for determining prices under the Economy Act make little sense. The basic rule is to use the price paid for the weapon in the final contract—a number that may bear little relationship to either the actual price paid for a particular weapon or the average price paid over the years. The staff recommends that the committee review the procedures by which prices are calculated under the Economy Act.

The normal Army procedures for reviewing and controlling what is called "sensitive support" given the CIA were sidestepped. In one sense, this system was unnecessary—as one general officer said, the system was created in part as a check on CIA shenanigans, but in this instance, the CIA was not requesting Army assistance, the White House was directing it. Therefore, normal reviews by Army lawyers and leadership were irrelevant. The system was also created, however, to assure Army control at the highest level of any "sensitive support" carried out with Army resources. Had the system not been bypassed, Operation Snowball would have gotten

underway only after the highest levels of the Army had all been involved. As it was, the operation received secretarial review only after the first shipment of TOWs had already been delivered to Iran.

The law requires that Congress be notified of significant intelligence operations, defined to include operations involving \$1 million or more in military equipment. The Army was very concerned that notification of the TOW sales, which involved far more than \$1 million, might not be made. The Army felt itself hampered by a long-standing OSD legal position that notification was the sole responsibility of the receiving agency—the CIA in this instance—and not the services or OSD. The odd nature of the TOW transaction generated acute nervousness among Army officials over the requirements for congressional notification. While some Army officials may have exaggerated their own concern, the written record and interview record make clear that officials were sufficiently disturbed at the prospect that Congress would not be notified as required that this matter was raised to the level of secretarial attention.

As a result of specific instructions, normal written records were not kept on this operation. That inhibited the course of this investigation. It may also have contributed to some of the TOW pricing errors since the usual paperwork controls were absent.

As a result of other errors within the Army Missile Command, the entire last shipment of 500 missiles (of the total of 2,008 shipped) contained a problem battery that has caused a theoretically dangerous "fly-back" problem.

No one in the Army was ever told the destination of the TOW missiles or Hawk spare parts. The investigation identified eight Department of Defense officials—all within OSD or the JCS—who knew the destination. Four knew of it during the planning stages that preceded the signing of the Presidential Finding January 17, 1986, and the other four learned of it over succeeding months.

Despite having requested detailed data on Hawk parts availability almost three months ago, the Army has not yet supplied the required data to the committee. There was no formal readiness review of the implications of the TOW sales, but officials generally felt that the numbers to be sold were low enough and the type of weapon old enough that no adverse impact on readiness would result.

The following cost data was provided for the equipment supplied the CIA:

	<i>Amount billed CIA</i>
2,008 basic TOWs .....	\$6,965,752.00
Modification and support.....	410,159.00
Hawk spare parts.....	4,182,923.42
Support expenses.....	154,502.82
Total.....	11,713,337.24
Amount received to date .....	5,632,163.00

## EXECUTIVE SUMMARY

Under authority of a Presidential Finding, an order to provide the CIA with 4,000 (later 4,508) Basic TOW missiles was passed to the Army January 18, 1986, with instructions that the Army be fully reimbursed.

The Army system that would normally control sensitive support given non-DOD agencies, including the CIA, was bypassed. Because instructions called for minimal paperwork and personnel involvement, the normal legal review was not accomplished and the Joint Staff was bypassed. That decision was justified on grounds that the President had authorized the transaction, thus obviating any policy or legal review, and because of the particular sensitivity of the operation.

During the course of the arms transaction, problems developed over the correct pricing and models of the weapons to be provided, over the responsibility for notifying Congress, and over the lack of documentation. Some of these problems may have been aggravated by the decision to bypass the formal review procedures.

No one in the Army knew the ultimate destination of the TOWs or the Hawk parts that were later ordered. Only four officials, all at the level of the Office of the Secretary of Defense, knew the destination at the beginning of the episode; four others at OSD level later learned of the destination. Speculation about the destination was rife among Army officials.

In all, 4,508 TOWs were prepared for delivery to the CIA. But only 2,008 were delivered. An order for 234 different types of Hawk missile parts was only partially fulfilled. These requests were provided in three increments: 1,000 TOWs on February 13, 1986; 508 TOWs on May 19, 1986, with the Hawk parts scattered from May 19 through May 23; and 500 TOWs delivered November 3, 1986. All the TOWs were taken from storage at Anniston Army Depot, Alabama, convoyed by truck to Redstone Arsenal in Huntsville, Alabama, and there turned over to the CIA under signed receipts. The Hawk parts were gathered from a multiplicity of sites.

The TOW order was for Condition Code A (ready for use) Basic TOWs. There are, however, eight different Basic TOWs (half use rounds with explosive warheads and half practice rounds with inert warheads) with eight different model and stock numbers. An Army major obtained the model and stock numbers for the oldest use model of the TOW. He then looked up the price for that model in the Army Master Data file (AMDF), finding a figure of \$3169 each. Working level officials soon learned that all TOWs of this model were Condition Code N (for use only in war or emergency). Installation of a safety part, called a Missile Ordnance Inhibit Circuit (MOIC), was required to make the weapon Condition Code A. The cost of this modification was about \$300.

Only 2,000 of this model could be modified within the 45-day period the Army was originally given to complete the transaction. To fill the remaining order of 2,508, the Army took newer Improved TOW missiles and switched warheads to make them Basic TOWs. The cost of this modification was about \$200 per missile. Working level personnel, however, selected Condition Code N mis-

siles for the warhead switch. The 500 TOWs delivered to the CIA November 3, 1986, came from this stock of defective weapons.

Throughout the early part of the TOW transaction, officers of the Army Missile Command at Redstone sought to change the price at which the TOW would be sold. They argued that the Basic TOWs would have to be replaced with the current TOW II missile, at a cost of about \$11,000 per missile. Various officials at Army Headquarters in the Pentagon checked the regulations, however, and determined that there was no legal way replacement cost could be used as the basis for the transaction. The sale would be priced under the Economy Act—the standard mechanism for the inter-agency transfer of goods and services—and Army regulations provided for prices drawn from the AMDF for Economy Act transactions.

The investigations of the last few months, however, have turned up numerous erroneous and questionable figures in the AMDF. For example, the Standard Range Basic TOW without the MOIC was listed at \$3169 in the AMDF. The same weapon with the addition of the \$300 MOIC was listed at \$8435. The \$3169 figure, however, is questionable under Army regulations and more logically ought to be \$3491. And the \$8435 figure for the Extended Range Basic Tow turns out to have been taken from the wrong tabular data and ought to be \$7843. Furthermore, the staff questions the rationality of the Army regulations and suggests that the Army and the House Committee on Armed Services look at another mechanism.

At no other time did any evidence surface indicating that anyone within the Department of Defense acted to depress the price charged the CIA in order to generate funds that could be utilized for other purposes. However, the major who kept reporting additional costs, such as the MOIC retrofit and the labor charges for the warhead switch, said he was told by the CIA that the White House would have to be consulted about added costs.

The price was not held down to a level that would obviate notification to Congress. Army lawyers who became aware of the transaction pointed out statutes requiring that Congress be notified about any intelligence transaction exceeding \$1 million. The first TOW transfer of 1,000 missiles alone exceeded \$3 million. By late February 1986, just after the first TOW shipment, concern over the transaction had bubbled up within the bureaucracy and produced a meeting in the office of Army Secretary John Marsh. He ordered that records of the transaction now be kept and that the issue of congressional notification be elevated to the Office of the Secretary of Defense (OSD). OSD adhered to a long-standing policy that the CIA and not the Defense Department was responsible for congressional notifications. The OSD official given the Army's memo of concern bucked the memo to John Poindexter at the White House.

Army officials became increasingly agitated and concerned that the established system of review and control was being undermined when the CIA put in two more out-of-channel requests—first for two Hawk radar systems, and then for another list of Hawk spare parts. The Army's unease came into focus with an appeal to OSD that the CIA requests be put on hold pending a thorough review. That request was granted only 10 days before the American arms sales to Iran were revealed in a Beirut magazine.



## NARRATIVE: OPERATIONS SNOWBALL AND CROCUS

### THE ARMY GETS A SATURDAY ORDER

On the morning of January 18, 1986, a Saturday, Major General (now Lieutenant General) Colin Powell, senior military assistant to the Secretary of Defense, prepared to relay an order he had received from his superior, Defense Secretary Caspar Weinberger. General Powell had known for some time of a debate over the advisability of shipping TOW missiles to Iran. Now Weinberger had told Powell that President Reagan had signed an intelligence finding directing that the sale go forward. Powell said he was told by Weinberger to make the necessary arrangements for the sale. The details were left to Powell.

The Defense Department has an established system and established procedures for handling sensitive support provided to non-DOD agencies, including the Central Intelligence Agency. Normally, requests come from the CIA to the Joint Staff. From there, paper detailing the requested assistance is supplied to the appropriate service. In the case of the Army, that service had devised a very formalized review process.

Interviews with Army personnel involved in the review system pointed to concerns that prompted the service to institute the formalized review process. The formalized structure was devised after the Yellow Fruit scandals of the early 1980s that resulted in the prosecution of several Army officers for misappropriation of funds designated for clandestine projects; as a result, Army officials felt tighter financial controls were required. Senior officials also wanted high level political and legal review, reflecting concern that some operations might be illegal or might be run by lower-ranking officers contrary to policy—the “rogue elephant” syndrome. Also, some officials expressed concern that CIA requests for Army assistance were entering the Army at a relatively low level and being granted without necessarily considering possible impacts on the safety of members of the Army, on readiness, or on the image of the Army, should the nature of the Army’s involvement become known. Finally, it was felt that all “sensitive support” operations and black programs should be under centralized control to be certain that the highest Army authorities could exercise control.

The request for TOW missiles, however, was not processed through the established system. General Powell, who was not part of that system himself, chose to bypass the Joint Staff and alert the Army directly to prepare to ship the requested TOW missiles.

TOW is short for Tube-launched, Optically-tracked, Wire-guided. It is the primary anti-tank weapon fielded by the Army and Marine Corps. The first production line TOWs were delivered in 1969. The 62 pound missile is fired from a 205-pound launcher. As the missile leaves the tube, two extremely thin wires play out in flight. The gunner keeps the crosshairs on the target and a computer in the launcher sends directional changes to the missile through the wires. Thus, the gunner can bring the missile down on a moving target.

The request for TOWs involved missiles only, not launchers. General Powell said that while Secretary Weinberger probably just told

him the order was for TOWs, he assumed from his conversations of the preceding months that what was involved was the Basic TOW, the oldest of what General Powell believed to be three models of the TOW.

Powell related that he had discussions in the preceding months with John Poindexter, the President's national security adviser, about the TOW, including the price. Powell said he did not recall any discussion about price with Lt. Col. Oliver North of the National Security Council Staff. Powell said that in the preceding months he checked on the price—he assumes that he called someone in the Defense Security Assistance Agency (DSAA), which handles sales to foreign governments—and was told the TOW sold for about \$10,000 or \$11,000 apiece. (That price would relate to the newest model TOWs.) Powell said that in the discussions on price with Poindexter, he always had the impression that a finite sum of money was available. But he was not given a figure or a ceiling. Later in January and in February, as the exact price was being nailed down, Powell said he was aware of rapidly changing numbers, felt the price had become "a floating crap game," and ceased trying to figure it out. But he told the Army general who later kept him posted on the project that the Army should get whatever was required to cover its costs and should not lose on the transaction. Powell emphasized that he was never under pressure from anyone to hold the price down.

General Powell passed the order on to the Army. Because of the sensitivity, he did not use the telephone; he walked to the office of General Maxwell R. Thurman, the vice chief of staff, who was acting chief that Saturday. General Powell saw his task as getting the operational level people in contact with one another—that is, linking up someone in the Army who would execute the order with a counterpart in the CIA. He said he told Thurman: the number of missiles required; to hold knowledge of the mission closely; and to appoint someone to execute the mission.

Powell said he didn't even consider bringing the normal review system into play. He reasoned that the system existed to watch CIA requests for assistance; in this case, however, the request came from the White House. Powell said Secretary Weinberger told him the legal requirements had been complied with—that is, the President had signed an intelligence finding authorizing the sale. Therefore, none of the legal reviews provided for within the system were required. Powell said he did not see his order as bypassing the Joint Staff because it wasn't a joint matter. He said it was a simple matter of providing missiles; the Army had the missiles, so he went to the Army.

Table I lists the general order in which the directions for the TOW sale were communicated down to the operating levels. (N.B. A complete list of all persons interviewed for this report, along with their ranks and titles, is appended at the end of this report.)

**TABLE I—PROGRESSION OF TOW ORDER WITHIN DEPARTMENT OF DEFENSE**

Maj. Gen. Colin Powell, chief military aide to Secretary Weinberger

Gen. Maxwell Thurman, Vice Chief of Staff of the Army  
 Lt. Gen. Benjamin Register, Deputy Chief of Staff for Logistics  
 Maj. Gen. Vincent Russo, Asst. Deputy Chief of Staff for Logistics  
 Major Chris Simpson, DSCLOG Directorate of Supply and Maintenance  
 Col. James B. Lincoln, Chief, TOW Project Office, Redstone Arsenal

Powell did not tell Thurman that the TOWs were destined for Iran, only that they would go to the CIA. No one in the Army was ever told the ultimate destination, though the mysterious nature of the order and its ranging from four-star general to major, who were involved in getting the weapons to the CIA. From the interviews, it appears that four people within the Department of Defense knew before that Saturday of the planning to supply Iran with weapons—Weinberger, Powell, Richard L. Armitage, and Assistant Secretary for International Security Affairs, and his principal deputy, Noel Koch. In succeeding months, four others learned of the plan and destination—Deputy Secretary William H. Taft IV, Vice Admiral Donald S. Jones, who succeeded Powell as Weinberger's senior military assistant, Lieutenant General John H. Moellering (USA), assistant to the chairman of the JCS, who was informed by Armitage, and Admiral William J. Crowe Jr., chairman of the JCS, who was informed by Moellering. Armitage's superior, Under Secretary for Policy Fred C. Ikle, was never informed, nor were any other officials, so far as the interviews could determine.

General Thurman relates that General Powell called and asked to come down and speak with Thurman personally, not over the telephone. Thurman recalls being told to prepare to ship 1,000 Basic TOWs on short notice and another 3,000 TOWs at a later date. Thurman states that Powell said nothing about pricing. Thurman saw this as a "be prepared" order and expected a formal written order to follow later. He did not envision that the normal system for reviewing and controlling "sensitive support" was being bypassed, and therefore called in his action officer to tell him what was happening.

Because Powell dealt face-to-face with him, Thurman said he passed the order down the chain of command by dealing face-to-face with Lt. Gen. Benjamin F. Register, Jr., the Army deputy chief of staff for logistics (DCSLOG). Thurman said he told Register to determine the location and availability of the TOWs. He also told Register to make no telephone calls and to operate face-to-face as Powell had done.

Register, in a discrepancy, thought he received a telephone call from Thurman telling him to be prepared to ship 1,000 "vanilla" TOWs now with 3,000 more later. Register says he was told to keep a record of costs and whom he did business with. Register keeps a log and wrote notes of the conversation as it occurred. The log notes relate:

18 Jan 86

VCSA

*Be Prepared Order*

#1

- 1 Ship 1000 TOW msls—vanilla  
Ship 3000 TOW msls—*no sights*  
Where are they stored
- 2 *Timing*  
May come @ anytime
- 3 Keep a record of costs, who we do business with
- 4 *Inform CSA*

Register then drew a line across the page and set down his thoughts on what needed to be done.

*How to Plan*1—*Basic Data*

- Release Plan needed
- How to release from storage & adjust records
- How to transport to departure airfield
- How to communicate/document
- Who will transport by Air/ground
- Receipt process to gaining activity
- Follow-up payment process

The notes make no reference to what the price ought to be, though the notation to “keep a record of costs” supports assertions that the Army would be reimbursed.

General Register then summoned Major Chris Simpson, a member of his staff. Simpson came in from his home and met Register in the general’s office. Simpson relates that he was ordered to get ready to provide 4,000 vanilla TOWs on short notice. He was told to determine the availability of the missiles that day. Both Simpson and Register said availability was the primary concern that day since this was a short fuse request and Register needed to know if it was even possible to fulfill. Simpson related that he was also told that paperwork was to be kept to a minimum and that the order was extremely close hold.

Simpson says he then contacted Mr. John Hill, a GM-13 in an adjacent office, to obtain the stock number and model number of the Basic TOW missile. Normally, Simpson received orders for equipment on paper that already bore the stock and model numbers. In the absence of paper, however, Simpson needed those numbers to begin his work. Hill, Simpson said, asked if the requirement was for a practice round (with an inert warhead) or a use round. Simpson said a use round.

Hill does not recall any such conversation with Simpson that day. Hill had been called in by Register as well and recalls that he was busy putting together a handwritten matrix showing where TOW missiles were located around the world. Hill was aware of the fact that there were eight different versions of the Basic TOW with eight different stock numbers and eight different model numbers. But since he does not recall the conversation with Simpson, there is no indication how he settled on the stock and model numbers that Simpson says he received. However, the model number—

BGM-71A—represented the first model number in the series and thus the first version of the TOW produced.

Using the stock number associated with the BGM-71A, Simpson went to the Army Master Data File (AMDF, pronounced am-def) and looked up the price, which was given as \$3169.

Most officers and officials interviewed said they understood at the time that there were three versions of the missile—the Basic TOW; the Improved TOW and the TOW II. The term “vanilla” is military jargon without a concrete definition but taken generally to mean unadorned or unimproved. Officers interviewed for this report generally, but not uniformly, viewed vanilla as synonymous with Basic Tow. What few knew, however, was that the AMDF listed eight different versions of the Basic TOW, plus two each of the Improved TOW and TOW II, as shown in Table II. The terminology used in Table II is explained in the paragraphs following the table.

TABLE II—TOW MISSILE CONFIGURATIONS

Model number	Popular term	Range (meters)	Distinguishing characteristics	AMDF price	Dates made
BGM-71A.....	Basic TOW.....	3,000	Bad battery.....	\$3,169	69-76
BGM-71A2 <sup>1</sup> .....	Basic TOW.....	3,000	MOIC.....	8,435	( <sup>1</sup> )
BGM-71A1.....	Basic TOW.....	3,750	Bad battery before 1983.....	8,435	76-
BGM-71A3 <sup>1</sup> .....	Basic TOW.....	3,750	MOIC.....	8,435	( <sup>1</sup> )
BGM-71C.....	Improved TOW.....	3,750	New warhead.....	8,875	79-
BGM-71C1 <sup>1</sup> .....	Improved TOW.....	3,750	MOIC.....	9,024	( <sup>1</sup> )
BGM-71D.....	TOW II.....	3,750	Newer warhead.....	12,518	82-
BGM-71E.....	TOW IIA.....	3,750	Even newer warhead.....		87-
BTM-71A.....	Basic TOW.....	3,000	Training round.....	3,005	69-76
BTM-71A2 <sup>1</sup> .....	Basic TOW.....	3,000	Training round; MOIC.....	7,977	( <sup>1</sup> )
BTM-71A1.....	Basic TOW.....	3,750	Training round.....	7,977	76-
BTM-71A3 <sup>1</sup> .....	Basic TOW.....	3,750	Training round; MOIC.....	7,977	( <sup>1</sup> )

<sup>1</sup> These versions never came off a production line as such. The numbers designate models that contain the MOIC, which was retrofitted into the model listed above each asterisked line beginning in 1983. For example, the model listed on the second line came off the production line from 1969 through 1976, as described on the first line of the table; but this model number only came into existence in 1983 when MOICs were first inserted in older missiles.

While most officers interviewed spoke in terms of three TOWs (Basic, Improved and TOW II), those intimately involved with the weapon thought in terms of four versions since they divided the Basic TOW into the standard range version (3000 meters) and the extended range version (3750 meters).

But only a relative handful were aware that each of the two versions of the Basic TOW came in two different versions: with and without a “MOIC.” In the early 1980s, the Army discovered a potential problem with its TOWs. All the standard range Basic TOWs, and many of the extended range Basic TOWs and Improved TOWs contained a battery that had malfunctioned twice in about 30,000 firings, a number that far exceeds the Army’s safety standard of accepting one life-threatening malfunction in a million. On those two occasions, the missile was expelled from the launcher on firing and fell to the ground without the rocket igniting. Later, the missile motor engaged and the missile flew uncontrollably because the guidance system was damaged when the missile hit the ground. This “fly-back” hazard was a threat to the TOW crewmen as well as other friendly forces. To prevent recurrences, the Army created

a "Missile Ordnance Inhibit Circuit" or MOIC (pronounced moyk or moe-ick) to prevent the rocket motor from re-igniting if a missile should hit the ground.

In 1983, the Army began inserting the MOIC in its inventory of TOWs containing the suspect battery. TOWs coming off the production line received a proper battery. The cost of the MOIC and the labor to insert it came to about \$300.

The subdivision of the Army that maintains the AMDF, the National Inventory Control Point, then gave new model numbers and stock numbers to the TOW versions containing the MOIC. Each item in the AMDF also carries a price. The standard range TOW (BGM-71A) was priced at \$3169, which was the price paid for it shortly before procurement ended in 1976. Standard policy for AMDF pricing of items no longer procured was to list the price under the last procurement contract. When the MOIC was added to the standard-range TOW in 1983, a new price listing was required by the new model number. One possible price was the final year cost of the missile (\$3169) plus the cost of the MOIC (\$300). However, the price chosen was taken from the then current contract for the extended-range Basic TOW, or \$5,500. Since 1983, the AMDF price has risen each year because the price listed for weapons currently in production is always the current price. Thus the current AMDF price for the standard-range Basic TOW with MOIC is now given as \$8435 although all of those missiles were purchased by the Army prior to 1977 and the price never actually approached \$8435.

Armed with the model number and stock number for the original TOW—the Basic TOW without MOIC—Major Simpson says he personally went to the AMDF in his office and looked up the price. He noted that it was \$3169.

With the price and the model and stock numbers in hand, Simpson telephoned Colonel James B. Lincoln, the TOW program manager stationed at Redstone Arsenal in Alabama. Lincoln states that his only contact on this entire matter was Major Simpson, who telephoned him at home that Saturday to ask about the availability of TOWs. Lincoln said Simpson gave him a model number, BGM-71A, and related that he had already looked up the price for that model and determined that it was \$3169. And, Lincoln said, Simpson said the "customer," which was not otherwise identified, wanted 1,000 TOWs.

Colonel Lincoln telephoned staff members from his home and determined that 1,000 Basic TOWs were readily available at the Anniston (Alabama) Army Depot. He reported back to Simpson by telephone and Simpson walked to General Register's office to report the availability of the missiles.

General Thurman, meanwhile, was preparing to leave town just as the chief of staff, Gen. John A. Wickham Jr., was returning. Early in the afternoon, Thurman said, he went to General Wickham's office and spent about a half hour briefing Wickham on a half dozen matters as he turned the watch back to his chief. In that briefing, Thurman said he told the chief that there was an unusual action underway relating to an order for TOWs for the agency.

## THE FIRST WEEK

That completed the Defense Department activity over the weekend. With the start of the business week, activity increased. Frequent telephone calls and meetings commonly blended in the memories of participants so that a precise chronology becomes impossible. But the general trend of developments does emerge.

Early in that week, probably Tuesday since Monday was the Martin Luther King Jr. holiday, General Register summoned Maj. Gen. Vincent M. Russo (now lieutenant general), the assistant deputy chief of staff for logistics (ADCSLOG), to his office and, according to Russo, set out the fundamentals. It was determined that Russo would take on the principal role of overseeing the mission. Throughout the succeeding weeks, General Russo and Major Simpson would be the main players within the Pentagon.

Russo said he was told to hold the number of people and the amount of paperwork to a minimum. Russo called in Major Simpson for a briefing. Russo then visited General Powell to notify him that Russo would be the Army contact and to exchange secure telephone numbers. Russo relates that Powell specifically said he wanted to be sure that what the Defense Department did was legal. Powell, however, made the point in his interview that Secretary Weinberger told him the legal requirements had been taken care of and that legality was not a question.

Both Powell and Russo say Powell made the point that the Army should be reimbursed for its costs, a point further supported by General Register's notes. There was no discussion by Powell and Russo of a specific price, however. The number that was about to become the focus of all future consideration originated with Major Simpson. It was bubbling up from the bottom, not being imposed from the top.

Powell said he did specify that the Economy Act be applied. Powell was one of the few officials interviewed to acknowledge any familiarity with the Economy Act. He said that in his many Pentagon assignments he had often had to deal with other government agencies who wanted military services or equipment and expected to get it for free. He said he delighted in explaining that, for example, they could certainly use a military aircraft, but under the Economy Act would have to pay several thousand dollars per flight hour.

Powell also informed Russo that the CIA contact for the mission was a certain CIA operations officer. Russo called the Agency operations officer on a secure phone line. The general said his purpose was to pin down such issues as where the TOWs were to be delivered, when they should be delivered, and what was the status of funds for the missiles. The Agency operations officer told Russo that the Army should provide the price, and that the delivery schedule was open. A few days later, Russo said, the Agency operations officer called back with a schedule: be ready to ship 1,000 TOWs around January 29 with two more shipments coming in February—a total of 4,500 missiles to be shipped within 45 days.

That was an increase of 500 over the order for 4,000 TOWs that General Powell had transmitted. Powell said the additional 500

were intended to reimburse the Government of Israel for TOWs it had earlier dispatched to Iran.

In Alabama, Colonel Lincoln was having some doubts. He had never been asked to perform a mission of this type. He checked his Pentagon telephone directory to ascertain that Simpson was who he said he was. In a telephone exchange with Simpson that week, Lincoln said he felt it necessary to bring his superior, General Richard H. Thompson, Commanding General of the Army Materiel Command, into the picture. Lincoln said Simpson told him he could not inform his superior. Lincoln responded that he simply would not execute the order unless the general was informed.

Simpson's version was similar. He said Lincoln raised concerns about the chain of command and the fact that Army headquarters was bypassing his boss. Simpson said that Lincoln levied a demand: either Washington informed the general or Lincoln would. Simpson said he then went to General Russo and explained the problem. General Russo then called General Thompson on a secure line and gave him a brief explanation of the operation.

Soon after the weekend, Simpson received a call about the TOWs from a logistics officer of the CIA, who said he was aware Simpson had been called in over the weekend and was dealing with the order.

The Agency logistics officer asked Simpson where the TOWs were stored and told him the order would comprise 4,500 TOWs shipped over 45 days with the first shipment of 1,000 to be expected about January 29. The number of TOWs was refined over successive days, with Simpson recalling successive calls changing the number to 4,504, then to 4,509, and finally to 4,508. Simpson said he provided the Agency logistics officer with the stock number, model number and price of the Basic TOW—\$3169. The Agency logistics officer also specified that the TOWs be Condition Code A.

Condition codes impose various restrictions on weaponry. Condition Code N, for example, permits use only in time of war or national emergency. Condition Code A imposes no restrictions whatsoever. All TOWs with the suspect battery but lacking a MOIC were automatically classified Condition Code N since they ought not be used in training but only in emergency. Major Simpson, however, had specifically provided a model number that designated a TOW without a MOIC. Thus, not a single missile of the model number requested by Major Simpson fit the condition code specified by the CIA. In fact, no BGM-71A could be Condition Code A, since the process of upgrading a BGM-71A to Condition Code A also changed the model number to BGM-71A2.

#### WHERE WERE THE TOWS GOING?

Simpson said that in one of his Saturday conversations with General Register the general asked him if he could find out where the TOWs were going. So, Simpson asked the Agency logistics officer outright. The logistics officer declined to say. Simpson said the DCSLOG wanted to know. The logistics officer went to his superior, the Agency operations officer, and then reported back to Simpson that the answer was no.



While several OSD officials knew or would learn the destination of the TOWs, all those interviewed in the Army say they were left in the dark. Speculation was rife, however. At the Missile Command, George Williams, the GM-15 who was Lincoln's civilian deputy, noted that no launchers were included in the order and concluded that only three countries possessed enough launchers to make use of 4,000 TOWs—Germany, Israel, and Iran.

Actually, more countries could have qualified under this criterion. Since 1969, the United States has produced about 425,000 TOWs, of which about 225,000, or almost half, have been delivered to foreign countries. Five countries have received more than 18,000 missiles each. Iran ranked third, receiving 20,239 TOW missiles before the 1979 revolution. Another 10 countries have received from 4,000 to 10,000 TOWs each, and 12 other countries have received fewer than 4,000 TOWs each.

#### THE ARMY FINDS ONLY 2,000 BASIC TOWS WITH MOIC'S

Simpson was busily at work trying to fit together all the administrative pieces. Anticipating an air shipment, he requested the "weights and cubes" for various aircraft—i.e., the freight capacity by weight and volume—to determine how many flights would be required to move 1,000 TOWs. He talked with the Military Airlift Command (MAC) to alert it to the need for airlift about January 29.

In Alabama, Lincoln had other concerns. He wanted to know the name of the country receiving the TOWs. The missile command keeps a record of every recipient in the event of recalls.

More importantly, however, he now knew that he had only 2,000 standard range Basic TOWs in Condition Code A. Lincoln alerted Simpson that he was unable to supply any BGM-71A TOWs in Condition Code A. He explained the battery problem and the MOIC retrofit. Simpson asked what it would cost to put a MOIC in the BGM-71A and was told about \$300 per missile. Lincoln recalled that Simpson was concerned that the "customer" had already been told that the price would be \$3169. Simpson checked with the customer, Lincoln recalled, and phoned back some days later saying that the new price of \$3469 had been okayed.

But Lincoln then learned there were two few MOICs on hand to retrofit 2,500 TOWs in just 45 days. He offered Simpson the Improved TOW. Simpson said he checked with the Agency logistics officer at the CIA, who said he was unwilling to pay for any greater capability. Simpson related that the Agency logistics officer said the Basic TOW was all that was needed and he wasn't willing to pay more than \$3169.

Lincoln next came up with a suggestion to downgrade Improved TOWs to Basic TOWs. The difference between the two was in the warhead. The Anniston depot had lots of Basic TOW warheads. And a switch was simple—only six bolts held on the warhead. Furthermore, since the Army had for years been putting I-TOW warheads on Basic TOWs in order to upgrade them, it had lots of Basic TOW warheads on hand and no use for them.

At this point, Simpson said, Russo interjected a readiness concern. The Improved TOW was a state-of-the-art weapon, unlike the

Basic TOW, and he wanted to know the impact on readiness. Simpson said George Williams assured them there was no impact.

Lincoln reported that it would cost about \$200 each to convert I-TOWs into Basic TOWs by switching warheads. Again, Simpson checked with the customer to see if that cost could be tacked on. Simpson's CIA contact on money matters, an Agency finance officer, said he would have to check on the additional funding. Eventually, Simpson said, he received the okay. Simpson recalled that the Agency finance officer had earlier said he would have to go to the White House if there was any change in the price.

Anniston Army Depot was told to keep records of all its labor costs. In the end, it calculated costs totaling \$377,619.23 for switching warheads on 2,500 TOWs. Only 500 of these TOWs were ever transferred to the CIA. However, the entire bill for shifting warheads on all 2,500 was charged to the CIA. That could be considered an overcharge, since it was work performed for a service the CIA never received. But it could also be considered a fair charge, since the CIA had ordered 4,508 missiles, even if it did not in the end take them all. In another irony of the pricing problem, someone made a clerical error in rounding off the labor charges. The CIA was billed for \$377,720—a \$100 overcharge.

The work proceeded at Anniston Army Depot. The Army was now fulfilling an order for the BGM-71A Condition Code A missiles by:

Earmarking 2,008 BGM-71A TOWs to which had been added a MOIC, which—unrecognized at this time by any of the principals—changed the missile's model number to BGM-71A2; and

Taking 2,500 I-TOWs that—unbeknownst at this time to any of the principals—contained the suspect battery but *no* MOIC, switching warheads and making them Condition Code N BGM-71A1 TOWs.

The Army was thus preparing to deliver 2,500 BGM-71A1s and 2,008 BGM-71A2s for the price of the BGM-71A plus \$300 for the MOIC. In other words, the Army was preparing to sell the second and third models of the Basic TOW, both of which bore an AMDF price tag of \$8435, for the price of the first TOW model, the only one that bore a low price in the AMDF.

#### THE AMDF NUMBERS

The AMDF provides the most recent representative price paid for each weapon model. In the case of the BGM-71A, procurement ended in fiscal year 1976. According to a tabulation of contracts for the BGM-71A, the price paid for that model under the final production contract was \$3,491. But that is not the price shown in the AMDF; the AMDF figure of \$3,169 corresponds to the 1974 price. In 1976, the BGM-71A was superseded by the BGM-71A1, which contained a longer guide wire than the first model, extending the range of the TOW from 3,000 meters to 3,750 meters.

The problem with potentially erratic TOWs surfaced about 1982. The MOIC was designed and installation begun in all TOWs that had the questionable battery, which included all 71As and many 71A1 Basic TOWs plus some Improved TOWs. Someone then generated new model numbers: the 71A Standard Range became the

71A2 when the MOIC was added and the 71A1 Extended Range became the 71A3 when the MOIC was added, and the Improved TOW (BGM-71C) became the BGM-71C1 once it had a MOIC. Since there was a new model number in the AMDF, a new price was also required. The Army was unable to locate for the committee any documentation from the early 1980s citing the rationale for the price listed. However, the AMDF cites identical prices for the 3,000-meter Basic TOW with MOIC, the 3,750-meter Basic TOW with MOIC, and the 3,750-meter Basic TOW without MOIC. Thus, logic argues that whoever chose a price for the Basic TOWs *with* MOIC simply adopted as a formula the then current price for the *only* version of the Basic TOW then being manufactured—the 3,750-meter range version without MOIC. That was \$5,500.

In succeeding years, presumably owing to a combination of factors such as rising inflation and falling order numbers, the price of the one Basic TOW actually being manufactured climbed until it reached \$7,843 in fiscal year 1986, according to Army data sheets. But \$7,843 is not the number that appears in the AMDF; the figure \$8,435 appears. A clerical error was made. The AMDF is supposed to reflect the total cost of a weapon to the Army. But for the past few years, the Army has not bought any Basic TOWs on its own account; they have all been bought for FMS sales. FMS pricing includes add-ons to reflect pro-rata R&D costs and administrative costs. The AMDF price for the Basic TOWs is erroneously the FMS price.

The difference in price between \$3,169 for the BGM-71A (the standard range Basic TOW without MOIC) and \$8,435 for the other three versions of the Basic TOW thus represents several developments:

The additional wire (a minor cost) to extend the range—although one of the three higher priced missiles didn't have the extra wire or range;

The considerable inflation that occurred in the intervening years—albeit years in which the 3,000-meter Basic TOW was not being manufactured;

The decline in quantities being purchased, which dropped from 45,000 in the four-year period 1972-75 to 4,500 in the four-year period 1983-86;

Perhaps, the absence of competition: The program office related that in 1972 Hughes Corp. won a multi-year contract to produce TOWs, outbidding Chrysler. That low bid, the committee was told, generated the low AMDF price. The program office said Hughes did not face competition when it later bid to produce the BGM-71A1 with the greater range; and

The clerical error in selecting the price inserted in the AMDF.

#### THE FIRST SHIPMENT

Russo, Simpson, Lincoln and the others were poised for a formal order to move the weapons quickly. Late in January, Lincoln said he was told the Air Force would pick up the TOWs. The airport at Anniston was too small, so the missiles were trucked to Redstone Arsenal. Simpson flew down to Redstone to sign over the missiles

on January 29. That afternoon, however, the plan fell apart. Simpson said he learned that the CIA couldn't get the transportation for the overseas leg pinned down. Simpson returned to Washington. After that, the shipment plans were delayed day-to-day. Meanwhile, costs were being incurred because the TOWs had to be guarded 24 hours a day while they sat at Redstone awaiting pickup. Finally, on February 13 the carriers appeared at Redstone; working under time pressure, service personnel constructed the required supports, loaded 1,000 TOWs, and dispatched them.

Simpson only received oral notification from the CIA that funding was available shortly before the shipment. The documents transferring ownership of the TOWs from the Army to the CIA were signed in Washington the day of the shipment with Simpson acting for the Army. Simpson said that the payment authority document he received that day was the first piece of paper he had received from the agency dealing with Operation Snowball, the name Simpson gave the TOW transactions. (He picked that name because it was snowing the day he was looking for a title.) Simpson did not bill the CIA immediately. Russo said that since the operation should be wrapped up in a relatively short time—he was thinking of the original 45-day order—the Army might as well wait until it had all the charges in hand and submit a single bill.

#### NORMAL PROCEDURES BYPASSED

Throughout Operation Snowball, normal procedures for controlling such "sensitive support" operations were bypassed. The procedures had been developed in 1984 after the Army was embarrassed by the misappropriation of funds devoted to one of its secret programs.

As a result, the service instituted much stricter controls over the approval and conduct of "operational, logistic and other sensitive support" programs in an effort to avoid any "rogue elephant" events. The new procedures had two key points: first, more officials were brought into the process; second, higher officials were brought into the approval chain.

Each secret operation had to be reviewed in advance of approval by senior military, senior civilian and senior legal officials of the department. After approval, tighter operational—and especially fiscal controls—were imposed to make sure that each sensitive program was carried out as described in the documents that went through the approval chain.

Simpson was aware from his conversations with Russo that normal procedures were being bypassed. He became even more aware of the abnormal procedures when the CIA's logistics officer told him that it was, in Simpson's words, "imperative" not to involve the Joint Staff. The Agency logistics officer told Simpson the Army would never receive a formal request on paper. Simpson said the logistics officer told him that White House and cabinet level officials were involved and that these abnormal arrangements were what the parties wanted.

## DEBATING THE RIGHT PRICE

With regard to pricing, the CIA logistics officer told Simpson the transfer would take place under the Economy Act, which regulates interagency transfers. The weapons were transferred under the Economy Act, with the AMDF price the key.

Colonel Lincoln was also concerned about the price. He had never heard of the Economy Act, but he knew that the \$3469 price per TOW didn't help him since he was currently buying TOW IIs at a cost of more than \$11,000 each. Lincoln, whose job was to manage the TOW inventory, wanted to be able to buy more TOW IIs. He, therefore, took up the price issue. However, he said he didn't raise any points about the AMDF, of which he was unaware at this time in January, but simply the fact that his replacement cost was more than triple what he would be getting for the old Basic TOWs.

Lincoln took the matter up with Major General (now lieutenant general) Peter Burbules, commanding general of the Missile Command. (Burbules related that in late 1986 Lincoln informed him that Lincoln had violated his instructions from Major Simpson by directly informing Burbules.) Burbules, in turn, raised the price issue with General Russo. Burbules told the committee staff he knew nothing about the AMDF price for the Basic TOW with MOIC. He said he had been brought into Missile Command only a few months earlier as a procurement specialist, not as a missile expert. Burbules said his sole concern was that he was charged with maintaining Army inventories of missiles—but the revenues he would receive for selling 4,500 Basic TOWs would be sufficient to buy only one-third as many TOW IIs with which to rebuild the inventory. Burbules was unaware at the time of the staff interview that the Basic TOW was used by the U.S. Army solely for training purposes.

Russo said he would look into the price. He was not impressed with arguments for a higher price. He reasoned that the AMDF said the missile cost \$3169 and the Army was adding a \$300 part to it, so a fair price was the sum of the two. Russo said he never discussed the pricing issue with anyone other than Simpson and Burbules before he approved the figure of \$3469. He was not aware that the AMDF had a model number and higher price for a Basic TOW with MOIC.

Russo also didn't give much credence to Burbules' argument about maintaining the TOW inventory. Russo said he knew the Basic TOWs being supplied the CIA were only used by the U.S. Army for training purposes, so he didn't see any implications for readiness or war reserve stocks.

(No paperwork has been located showing that a formal assessment of the sale on readiness was ever made. Various officials interviewed say that since the weapon involved was an old one used only for training purposes by the United States, no one saw any readiness implications.)

No one at Missile Command appeared to be aware of the higher AMDF price for the Basic TOW with MOIC. Mr. Chris Leachman, a GM-14 on Lincoln's staff, told the committee that in searching his files he recently found a yellow Post-It note bearing the two

model numbers, two stock numbers and two prices in his own handwriting. But the note is undated. He doesn't know when he wrote it, and doesn't recall ever doing anything with it, or even writing it. Lincoln says he does not recall ever being told of the other AMDF entry.

Major Simpson said that at some much later date George Williams, Colonel Lincoln's deputy, called to argue that a Basic TOW with a MOIC had a different stock number and a higher price. Simpson was wearying of the changing prices. His CIA contacts were not happy when Simpson kept hiking the price. So, Simpson said he would not surface the issue with his superiors. He told Williams that if he thought strongly about the issue, then Williams could surface it himself.

In a major discrepancy, Williams described no such conversation and said he was unaware of the higher AMDF figure until after the TOWs-for-Iran sale became public knowledge late in 1986. When he was read the summary of Simpson's description of his conversation with Williams on the AMDF prices, Williams said he recalled no such conversation and repeated that he had no knowledge of the different AMDF prices at that time.

Lincoln and Williams both said the AMDF was not a document of much meaning to them. The Economy Act, keyed to the AMDF prices, was unfamiliar to them because they rarely sold missiles to other government agencies. On the other hand, they frequently sold TOWs and other missiles to foreign countries. They had an entire staff to handle FMS sales and were familiar with the FMS pricing mechanism. That started with replacement cost, i.e., the cost of the version of a weapon currently produced for Army inventories. That experience helped focus their attention on the \$11,000 price of the TOW II, not an AMDF figure they said they were unaware existed.

AMDF prices are widely used within the Army. Every day, thousands of soldiers use an AMDF price when they buy an item from an Army stock fund for their units. Missile Command, however, does not operate on the stock fund principal; it does not "sell" missiles to units; it issues them. Therefore, the only real use the Missile Command has for the AMDF is when it is involved in an Economy Act transfer.

#### THE ARMY SECRETARY MEETS THE ISSUE

Simpson, meanwhile, was meticulously going over the details. With Lincoln's demands for a higher price in mind, Simpson said he wanted some advice about the applicability of the Economy Act. He said he wanted to raise the issue to avoid any later glitches. In the week after the TOW order was received, he went to speak with Thomas W. Taylor, a lawyer in the office of the Army General Counsel. According to Simpson, Taylor was more concerned about two matters other than the Economy Act that were mentioned by Simpson in their conversation. First, Taylor was concerned about the lack of paper; Simpson said that Taylor had warned him early in his Pentagon tenure to get everything in writing in order to protect himself. Taylor was also concerned about congressional notification. He told Simpson that under the Intelligence Act Congress

must be notified of significant intelligence activities, which were defined to include operations involving \$1 million or more in military equipment. And just the first 1,000 TOWs would cost \$3.5 million even before the odds and ends of associated costs were tacked on for such things as packaging and guarding the missiles at Redstone.

Simpson was seeing Russo almost daily—going to his office late in the evening when the secretaries would be gone and his frequent appearances would not attract attention. Simpson raised the congressional notification issue with Russo in one of their talks.

Taylor, meanwhile, went to his superior, Susan Crawford, the Army General Counsel, and filled her in. Then he was summoned to Russo's office. Taylor said he had two legal concerns. First, Congress had to be notified if the intelligence action exceeded \$1 million. Second, the law barred the administration from shipping arms to an end user Congress had expressly said ought not receive American weapons. This was after Congress had specifically cut off military supplies for the contras; Taylor was thinking the TOWs might be bound for the contras and said he told General Russo there would be "big problems" if that were so.

Taylor said he also told Russo it was the legal position of the Department of Defense that the CIA, not the Army, was responsible for such notifications to Congress—but he suggested that the Army had a moral responsibility not to help some other agency break the law.

Crawford said she was concerned that she could not make a determination on legality in this case without knowing the destination of the weapons. Although everyone was telling the Army that the legal requirements, which include a finding signed by the President, had been complied with, the Army had not seen the finding and didn't know how broad or narrow it was. Taylor commented in Crawford's presence that the Army has sought in the past to see the texts of presidential findings and had always been denied access.

Crawford met in her office with Taylor, Russo and Major General William K. Sutter, the Army's Assistant Judge Advocate General. They decided to approach Army Secretary John O. Marsh Jr.

On or about February 24, 1986, they met with the secretary in his office. After reviewing the entire issue with Marsh, Crawford said the secretary gave three orders. First, Russo was ordered to keep records of everything involving Operation Snowball, despite his orders to the contrary from Powell. (Marsh said he thought the no-paperwork order applied to action papers, not to memoranda.) Second, Russo was directed to make Powell aware of the legal requirements. This, the two points that concerned Taylor when Simpson first approached him had been addressed. Simpson's original reason for approaching Taylor—the applicability of the Economy Act—appears to have been lost in the concern over record-keeping and congressional notification. Taylor, however, does not even recall discussing the Economy Act with Simpson. Both Crawford and Taylor commented that it was a non-issue—the Economy Act was the only vehicle that would be used to price an inter-agency transaction. Taylor said he could not recall why Simpson came to his office—but he did recall that Simpson was "looking harrassed"

when he came in. Crawford said she noted that Simpson was "visibly agitated" when she met him, though she suspected that might have resulted from the fact that Simpson had been ordered to keep the operation closehold and now more and more people were getting involved.

The chief problems were all addressed.

With regard to record-keeping, Simpson was told by Russo to start keeping a log.

With regard to congressional notification, a memo was drafted and hand-carried by Russo to General Powell. No copy of the memo has been found by Army or OSD. Powell says that he remembers receiving it, that he put a cover note on it, and then bucked it over to John Poindexter, the President's national security adviser, at the White House. Powell says he heard nothing back from Poindexter and had no further discussions of the matter with Russo or anyone else in the Army.

The issue of notification struck a particular chord inside the Army. On one level, Secretary Marsh, as a former congressman, was sensitive to it. But others indicated a sensitivity based on distrust of the CIA. Both Crawford and Taylor, who were interviewed together, noted that OSD had decreed that the CIA and not the Army had the responsibility to notify Congress of significant intelligence activities.

By the end of February, activity within the Pentagon on Operation Snowball was very limited. The first shipment of 1,000 missiles had been turned over to the CIA in mid-month. The meeting the next week in Marsh's office resolved the questions that had disturbed a number of officials. Now, the Army was awaiting the order for the next shipment.

#### WRONG TOWS CONVERTED

At Anniston, the process of removing Improved TOW warheads and replacing them with Basic TOW warheads was completed in February. George Williams said that around April he learned that many of the missiles converted contained the suspect battery but not the MOIC. In other words, they were Condition Code N missiles, not Condition Code A as requested. Williams said this was uncovered purely by accident when Chris Leachman was walking passed the desk of a staff member and overheard him say over the telephone that he didn't understand why his superiors wanted Condition Code N missiles converted. Leachman said he agonized over that for 24 hours, then told Williams, who told Colonel Lincoln and called Major Simpson.

Missile Command said it offered to do some further switching. All agree that Simpson told them just to wait. Simpson, conscious of all the delays, thought there might not be another order of TOWs dispatched. In the ensuing months, the condition code of these missiles never came up again and was forgotten when the Condition Code N missiles were prepared for shipment, which was not until October.



## THE SECOND SHIPMENT

In the spring, Simpson was preparing for a move to a new assignment that he would take up in June. Lt. Col. Larry Armbright began picking up Simpson's duties. In May, when the order to ship another 508 TOWs came in, Armbright handled most of the detail work. Like the first shipment, the second came from the 2,008 standard range Basic TOWs with MOICs that Leachman had earmarked.

Again, Simpson related, there were day-to-day delays just as happened in February. Again, the CIA shifted from a planned airlift of the missiles to truck transport. Armbright traveled to Redstone to oversee the shipment and to sign and receive the documents. The shipment of 508 TOWs was signed over to the agency on May 19.

Given the extensive delays before each of the shipments, Russo now told Simpson not to wait for another CIA order but to gather together all the cost records and bill the agency for the costs of the first two shipments. The bills totaled more than \$5 million for 1,508 missiles plus the overhead costs. The charges for switching warheads on all 2,500 TOWs was also included in this bill. Simpson said the payment came within a week-and-a-half. Simpson got checks for less than \$1 million. He said the CIA had told him there was a program limit on the size of checks. For this bill, Simpson got five checks for \$999,999 and one for the remainder. Simpson did not indicate that he saw any potential link between the check amounts and the \$1 million threshold on notifications to Congress.

Table III lists the Army's billings to the CIA and the CIA's payments. While payment was received expeditiously for the first two TOW shipments, no payment has yet been received for the third shipment of TOWs.

TABLE III—BILLINGS AND PAYMENTS FOR SNOWBALL AND CROCUS

1,000 TOWs with MOICs shipped Feb. 13, 1986.....	3,469,000
Cargo nets for air shipment that was canceled .....	1,200
Security guards at Redstone.....	7,650
Redstone labor and materiel .....	5,941
Travel.....	900
Subtotal.....	3,484,691
508 TOWs with MOICs shipped May 19, 1986.....	1,762,252
Transport and escort from Anniston to Redstone.....	3,383
Security guards at Redstone <sup>1</sup> .....	157
Redstone labor and materiel .....	3,960
Subtotal.....	1,769,752
Switch of Basic and Improved TOW warheads:	
Labor.....	367,269.60
General administration .....	10,163.70
I-TOW warhead freight charge to return to factory .....	185.93
Subtotal.....	<sup>2</sup> 377,720
Total (Payment received June 11, 1986) .....	5,632,163
Hawk parts shipped May 19-23, 1986.....	4,182,923.42
Transportation and other.....	154,502.82
Total <sup>3</sup> (Payment <i>not</i> billed as of Mar. 4, 1987).....	4,337,426.24

TABLE III—BILLINGS AND PAYMENTS FOR SNOWBALL AND CROCUS—  
CONTINUED

500 TOWs shipped Nov. 3, 1986 .....	1,734,500
Transport and escort from Anniston to Redstone .....	3,383
Security guards at Redstone .....	157
Redstone labor and materiel .....	3,960
Total (Payment <i>not</i> received as of Mar. 4, 1987 .....	1,742,000
TDY vouchers for four trips Washington/Redstone submitted through SATO procedure .....	1,748
Grand total <sup>3</sup> .....	11,713,337.24

<sup>1</sup> Reflects new DoD policy imposed after 1st shipment

<sup>2</sup> Rounding error; \$100 overcharge.

<sup>3</sup> Of this total, \$1,050,398.89 had not been billed to the CIA as of January 14, 1987.

#### OPERATION CROCUS

On April 9, Deputy Defense Secretary William H. Taft IV relates that he was at the White House in Poindexter's office. At that time, Secretary Weinberger was out of the country and Taft was acting in his stead. Poindexter told Taft there was now a requirement for Hawk antiaircraft missile parts to be supplied by the Army to the CIA for Iran.

Taft knew Powell had handled the earlier TOW request and called Powell, who had left the Pentagon March 17 and was now at a new assignment in Europe, to ask how he transmitted the requirement. Powell said that General Russo was the principal executor. Taft then called Army Chief of Staff Wickham, who called Russo to relay the order.

General Thurman recalls that Russo called to alert him to the new order. Brigadier General Carmen J. Cavezza, executive officer to Secretary Marsh, said he also received a call from General Russo passing on word that he had received another order for a delivery outside the normal system. Cavezza said he informed Secretary March who ordered Cavezza to tell Russo to "record everything." Russo ordered Simpson to keep a log of all that occurred from Day One. Simpson needed a new name. It was spring now and the snow was gone; he titled it Operation Crocus.

On April 10, a second operations officer from the CIA came to Russo's office with a list of 234 Hawk parts. (They were given non-consecutive numbers up to 238, leading to some reports that 238 items had been requested.) None of the items were missiles themselves or parts for missiles; the spares sought were all for ground support equipment. Russo called in Simpson and the three men went over the list, which the second Agency operations officer indicated had originated with the "customer," who remained unknown to Russo and Simpson. It appears that no one in the Army was informed that the Hawk customer was the same as the TOW customer.

The Hawk parts list was complicated. This time the request came with stock numbers, so Simpson did not have to look them up. The list also specified the quantities of each item. This varied from one (for a shutter, a relief valve, a stabilizer, a power supply, and an indicator assembly) to 500 (retaining studs). The prices were even-

tually obtained from the AMDF—but this time there were few questions, doubts or corrections involving the AMDF prices. Instead, Simpson had a different set of problems. To begin with, he was given only 48 hours to find out the availability of the parts—but the parts were managed by about 27 different Army commands. Seven parts were not even handled by the Army, but by the Defense Logistics Agency (DLA), and one part was managed by the Air Force. Simpson and Armbright talked it over and then farmed out the list. As reports came back in, new problems cropped up:

First, some of the stock numbers given were non-existent. They represented no part of any kind. Simpson went to the Agency logistics officer. Simpson said that officer eventually reported back that he was unable to get any further information and the Army should do the best it could to fulfill the order.

Second, some of the items requested were out of stock.

Third, to fulfill some of requests the Army would have to turn over much or all of its entire available supply of parts.

Finally, Simpson said, Mr. John Chapman at the Hawk program manager's office at Redstone Arsenal told him the requested parts were for an old version of the Hawk. Chapman said the Army had been calling back in the old version from its units and from foreign buyers and reconfiguring them. He said it would be cheaper for the customer to send in his old Hawk systems so Redstone could rebuild them. Simpson said he explained that to the Agency logistics officer, who told him just to supply the requested parts.

While the prices didn't change this time, the parts status was changing daily, Simpson said. Some of the parts he was told were in stock later turned out to be otherwise. Some of the errors in the non-existent stock numbers were deciphered and parts found. So much effort was going into simply trying to track down 234 line items scattered all across the country that little bother appears to have been paid to prices. Simpson said the Agency finance officer, perhaps weary of the mess over the Tow prices, said he would wait until every item had been priced out and instructed Simpson to be sure about the prices. It took about two weeks to clear everything up; the CIA was then given a comprehensive purged list, Simpson said.

Simpson told each of the commands that managed the parts to ship the items to the Red River Army Depot in Texas. He said he picked that installation because he knew the colonel in command there. On May 23, all the material gathered as of that time was turned over to the CIA. It included all or part of the quantities requested for 221 of the 234 line items. Two items were not shipped because the Army did not have them in stock; 11 items were not shipped because the stock numbers supplied were indecipherable.

#### TWO RADARS REQUESTED

Before that shipment, on April 25, Simpson said the Agency logistics officer came to him with a request to add two Hawk AN/MPQ46 radars to the list. Simpson said this bothered him. It was like the days when the CIA just called into the bowels of the Pentagon and placed orders. Simpson went to General Russo, who said that since the radars were out of the category of spare parts, the

Army ought to require a separate order. The order ought to come through channels—either the normal route, or the routing used for the TOW and Hawk orders.

Meanwhile, Simpson checked around to see if such radars were in stock. After several telephone calls, he learned that only two of that model existed in the United States. Both were in storage in Pennsylvania. And Simpson learned something else. He wouldn't be able to supply them to the CIA even if the agency put an order through proper channels because the Army didn't own the radars; they were owned by Iran. They were among a quantity of weapons impounded because of the U.S. policy against shipping weapons to belligerents.

Simpson said he later learned from Russo that the second Agency operations officer had complained that Simpson was calling around to other agencies about the radars. The second Agency operations officer wanted to know who Simpson had talked to and ordered that he stop his calls.

In mid-May, the Agency logistics officer called Simpson and asked if the radars could be tested. They had been ordered by Iran before the revolution and held in storage since 1979. Deterioration might affect their performance. Simpson said he told the Agency logistics officers he had the authority to test the radars, but the CIA would have to pay the Army to do so. The logistics officer, Simpson said, called back quickly to say the funds were available.

But, only a few days later, Simpson said, the logistics officer called again and said to forget the stored radars; instead, he wanted the new version of Hawk radar—the version used since the Hawks had been updated. Simpson called Chapman at the Missile Command and was told the new radar wouldn't work with the old Hawk batteries. Chapman asked if the radars and parts were going to the same country. Simpson said he checked back with the logistics officer, who was "cagey."

#### THE ARMY TRIES TO GET REQUESTS BACK TO NORMAL CHANNELS

Meanwhile, at some point in the late spring or early summer, General Wickham recalls that Secretary Marsh expressed concern that two projects were now in progress outside the normal system. General Wickham said that one of his chief concerns whenever Snowball or Crocus came up was to "get the genie" back into the bottle. Then the request for the two radars came in; that started to galvanize the Army.

On September 4, the CIA forwarded yet another request to the Army. This sought further Hawk parts. There were a total of 30 line items on the list. All 30 part types had been on the original list submitted in the spring. Of the 30 items, the Army had not supplied the full quantity requested for 14. The CIA was generally requesting the unfilled portion of the original order for those 14 plus added quantities of the 16 other line items.

The logistics people checked the supply system and found that fulfillment of the order would completely denude the Army of all available quantities of three of the items.

The Army staff put together some paper on the request, which noted that the available data was limited—"for example, the ulti-

mate destination of the material is not known," an October 7 memo said. The Assistant Army JAG for Military Law, Brig. Gen. D. Wayne Hansen, had not previously been involved in either Snowball or Crocus. He returned the paperwork with a handwritten note dated October 15, 1986:

Agree with OGC [Office of General Counsel]. We should not bypass [the normal] system if the SA [Secretary of the Army] is to be properly protected. This file does not contain sufficient information to make the required legal review. If the project continues as it is, the senior leadership of the Army is out on a limb by itself. In fact there may be NLO [no legal objection] to this, but one certainly doesn't know that from this file.

Marsh recalls that Wickham talked to him about this time. Wickham said the CIA requests were being shoehorned back into the established process. But, Marsh recalled, the formal process could not be re-established in its entirety without approval from the Office of the Secretary of Defense (OSD). Marsh said he went to Deputy Secretary Taft on October 24—ironically only 10 days before the secret project was exposed in a Lebanese magazine—and sought authority to reconstitute the normal procedures. An October 22 memo prepared for the upcoming meeting proposed that Marsh ask that Operation Crocus—that is, the radar request and the additional Hawk parts request that had not come from the White House—be put on hold until more details on the project were given to additional Defense Department officials and until a "proper DoD legal review" had been accomplished. Taft told Marsh to put the project on hold for the time being.

The requests for the radars and added Hawk parts were agitating Army officials and galvanizing them. Another indicator comes from Lieutenant General Arthur E. Brown, Jr., the director of the Army staff. He had only a few fleeting involvements with Snowball and Crocus. But he kept a personal log. It indicates that on October 29, Brown telephoned General Powell in Germany to ask whatever happened to the Russo memo pointing out the requirement for congressional notification. Brown's log book shows that Powell phoned back and related that he put a buck sheet on the memo and dispatched it to Poindexter. Brown, however, does not recall what sparked that exchange and his log book contains no hints.

#### THE LAST SHIPMENT

Missile Command, meanwhile, was still holding 3,000 TOW missiles and had been awaiting a further shipping order from the CIA since May. Late in October, after five months had passed, the order came to Armbright to turn over another 500 TOWs.

Months before, Redstone had told Simpson that many of the remaining TOWs contained the defective battery and no MOIC. Simpson had then told Redstone that they could worry about that when and if there was another order to ship. But Lincoln said Armbright never raised the condition code issue with him, and Lincoln did not raise it with Armbright.

Colonel Lincoln's staff prepared to ship the oldest TOWs. But Lincoln and Leachman said that in only a few hours a telephone

call came in from Armbright giving the precise lot numbers to be shipped. Lincoln said he pressed to ship the oldest models with the least shelf life remaining, but that Armbright insisted on the lot numbers he listed, saying, "The customer wants these." The lot numbers corresponded to some of the newest lots of TOWs, those manufactured in 1980 and 1981.

The 500 oldest TOWs were the only ones with the MOIC. The 500 TOWs shipped all lacked the MOIC and contained the defective battery.

Those 500 TOWs were signed over to the CIA on November 3. In Beirut that day, the magazine *Ash-Shiraa* was being distributed with a story describing how the United States was sending arms to the Islamic Republic of Iran.

### THE PRICING ISSUE

One of the central issues of the Iran arms controversy has been the price charged for the equipment delivered to Iran—especially allegations that the administration intentionally suppressed the charges imposed by the Army in order to generate "profits" that could be used to fund the contras in Central America. As the preceding chapter shows, there is no evidence to support such a conclusion. However, evidence gathered during the staff investigation does raise questions about the validity of the price that was charged for the TOW missiles.

There are several questions:

What is the correct model number for the TOWs that were shipped?

What is the correct AMDF price for that model number?

Are the regulations governing the determination of AMDF prices rational?

What was a fair price?

#### WHAT IS THE CORRECT MODEL NUMBER FOR THE TOWS THAT WERE SHIPPED?

All the weapons sold to the CIA were priced as BGM-71A TOWs plus a \$300 surcharge for the MOIC. But as Table IV shows, once the Anniston Army Depot finished switching warheads, the Army had earmarked two kinds of Basic TOW for the CIA—though not the one it charged for.

TABLE IV—BASIC TOW MISSILE CONFIGURATIONS

Model number	Popular term	Earmarked for CIA	Delivered to CIA	AMDF price
BGM-71A ..... Basic TOW-SR <sup>1</sup> .....		None	None	\$3,169
BGM-71A2 ..... Basic TOW-SR <sup>1</sup> .....		2,008	1,508	8,435
BGM-71A1 ..... Basic TOW-ER <sup>1</sup> .....		2,500	500	8,435
BGM-71A3 ..... Basic TOW-ER <sup>1</sup> .....		None	None	8,435

<sup>1</sup> SR = Standard Range (3,000 meters); ER = Extended range (3,750 meters).

By this logic, the relevant price was \$8435 with no add-on for the MOIC.

However, these TOWs did not necessarily begin life with the model numbers shown above, e.g., the BGM-71A2 TOWs cannot be traced back to a contract for BGM-71A2 TOWs because there never was a production line for this model; it is the result of operations at Anniston to retrofit MOICs into 71As.

If we look at the origin of the TOWs—i.e., at what they were when the Army bought them—we would find the distribution shown in Table V.

**TABLE V—ORIGIN OF TOWs DESIGNATED FOR CIA**

Model number	Popular term	Earmarked for CIA	Delivered to CIA	AMDF price
BGM-71A .....	Basic TOW-SR .....	2,008	1,508	\$3,169
BGM-71A2 .....	Basic TOW-SR .....	None	None	8,435
BGM-71A1 .....	Basic TOW-ER .....	2,500	500	8,435
BGM-71A3 .....	Basic TOW-ER .....	None	None	8,435

By this logic, the price charged for 1,509 TOWs was correct, but there was a significant undercharge for the remaining 500.

**WHAT IS THE CORRECT AMDF PRICE FOR THESE MODEL NUMBERS?**

Prices are drawn from the Army Master Data File (AMDF). The AMDF price for each model is shown in the above two tables. The rules governing the determination of the prices to be inserted in the AMDF are laid down in Army Regulation 37-60. In simplified terms, the price for an item should be that found in the most recent, “representative” contract. For an item still in production, “most recent” would be the current contract price; for an item no longer being procured, it would be the price in the final contract. The qualification that it should be a “representative” contract is intended to rule out pricing spikes. For example, if the Army bought 5,000 of an item each year and then bought only 10 in the current year, the price per unit this year could well be unrepresentatively high and ought not be entered in the AMDF.

Table VI lists all the contracts for the BGM-71A TOW along with the price stemming from each.

**TABLE VI—CONTRACTS FOR BASIC Tow BGM-71A**

	Contract No.	Quantity	Cost
Fiscal year:			
1969 .....	68-C-2141 .....	4,519	\$7,374
1970 .....	68-C-2141 .....	9,592	7,374
	68-C-0928 .....	1,913	7,374
1971 .....	68-C-2141 .....	2,839	4,412
	71-C-0994 .....	5,829	4,412
1972 .....	72-C-0418 .....	12,000	2,830
1973 .....	72-C-0418 .....	11,571	3,269
	72-C-0418 .....	13,139	<sup>1</sup> 3,269
1974 .....	72-C-0418 .....	11,370	3,169
	72-C-0418 .....	10,343	<sup>1</sup> 3,169
	72-C-0418 .....	3,475	<sup>2</sup> 3,169

TABLE VI—CONTRACTS FOR BASIC TOW BGM-71A—Continued

	Contract No.	Quantity	Cost
Fiscal year—Continued			
1975.....	72-C-0418.....	3,631	3,491
	72-C-0418.....	1,619	<sup>1</sup> 3,491
	75-C-0626.....	5,048	3,491
Total.....		96,888	<sup>3</sup> 3,993

<sup>1</sup> For FMS.<sup>2</sup> For Marine Corps.<sup>3</sup> Average price.

The price shown in the AMDF (underlined in Table VI) does not come from the final contract. And it is difficult to see how the final contract could be ruled unrepresentative. The quantity procured was neither outlandishly high nor low. And the price is actually much closer to the average price for all BGM-71As. Clearly, a judgment call is involved here, but the numbers inserted in the AMDF—and inserted there years before anyone conceived of selling TOWs to Iran—do not appear to be supported by much logic.

The argument has been made that the figure of \$8435 was a more appropriate figure for most of the TOWs sold Iran—that being the AMDF price for the two versions of the TOW sold Iran. When the committee staff asked for a complete price history of TOWs, the Army discovered that the wrong figures had been inserted in the AMDF for all three of the later models. The actual figure for those models ought to be \$7843, the Army determined. Whoever entered the figure of \$8435 derived the number from the wrong tabular data. (The same error was made in entering the price for the BGM-71C Improved TOW, which ought to be \$8069 rather than the listed figure of \$8875.)

The price for the BGM-71A1 Extended Range TOW raises another question. The (erroneous) AMDF price is taken from the most recent contract. Yet the most recent contract was for a quantity of only 341 TOWs. If the final contracts for the BGM-71A Standard Range TOWs, shown in Table VI, were unrepresentative when the contracts were for thousands, might not the order for only 341 BGM-71A1 Extended Range TOW's reasonably be considered non-representative and not entered in the AMDF? A quantity of 1619 was the smallest order of BGM-71A's made (see Table VI), yet that contract was presumably considered non-representative since the price for that order was not entered in the AMDF. If one were to rule all orders for the BGM-71A1 that were less than 1619 to be non-representative, one would find a price of \$5382 entered in the AMDF, rather than \$8435.

After a time these numbers become numbing. It appears almost impossible to determine what ought to be a reasonable price. If we return to Army Regulation 37-60, however, we find that a key pricing element—relating to the Anniston's Depot's insert of the MOIC—was ignored.

Chapter 2-2.g. of AR 37-60 states in full:

Depot modification of items in inventory will be treated as procurement costs. They will be added to the existing standard price to arrive at the revised standard price. This applies only when a representative quantity of the items is modified and a separate stock number is established.



This section lays out the rules for determining the price of the Basic TOW after the addition of the MOIC. Quite clearly, it was ignored by those who wrote the AMDF. The regulation makes clear that the correct price was the "existing standard price," which was \$3169, plus the additional cost of the "depot modification," which in this case was the cost, parts and labor, of adding the MOIC at the Anniston Army Depot.

*That is exactly the approach that was used in pricing the TOWs for sale to the CIA. In other words, for 1,508 of the TOWs, the Army correctly followed the system outlined in its own regulations—although no one did so consciously.*

There must be two qualifications to that conclusion, however. First, as explained above, the AMDF figure of \$3169 does not appear defensible under AR 37-60 and ought to be \$3491—the final contract price for the BGM-71A. Second, the price chosen for the MOIC was rounded off to \$300. Army calculations show an actual cost of slightly more, around \$325. Thus the correct price under current Army regulations ought to have been \$3816 per TOW; as sold, the missiles were underpriced by 9 percent. However, as this lengthy exposition makes clear, there is no way one could rationally expect the personnel fulfilling the order for TOWs to have provided the correct figure since the correct figure itself was buried in errors made years before.

(This analysis confines itself to the price charged for the TOWs themselves and does not look at the surcharges added. As the text indicates, there was at least one surcharge error made—an overcharge—as a result of an error in rounding.)

#### SUMMARY

In sum, there were three key errors that produced an erroneous price—two of which errors predated the Iran arms controversy by years:

First, Major Simpson chose the wrong model number at the start of the operation and the correct model number never caught up with the transaction. This error may have been caused or aggravated by the fact that the usual paperwork accompanying such a transaction never existed;

Second, the AMDF used an erroneous approach for pricing the 1,508 BGM-71A2 TOWs sold to the CIA, generating a price more than double that which should have appeared in the AMDF; and

Third, due to a clerical error, the AMDF showed the wrong figure for the remaining 500 TOWs, model BGM-71A1.

Table VII shows the scale of the error. The price that ought most reasonably have been charged, given the regulations guiding the AMDF pricing system, would have been \$9,676,028. The actual price charged was 28 percent less than that. The published AMDF prices were so far out of line that had those prices been used the CIA would have been overcharged by 75 percent.

TABLE VII—SUMMARY OF PRICING ERRORS

	Price charged	Published AMDF prices	Corrected AMDF prices
1508 BGM-71A2.....	\$3,469	\$8,435	$\$3,491 + 325 = 3,816$
500 BGM-71A1.....	3,469	8,435	7,843
Total.....	6,965,752	16,937,480	9,676,028

#### ARE THE REGULATIONS GOVERNING THE DETERMINATION OF AMDF PRICES RATIONAL?

If this numbing discussion of prices points in any direction, it poses a question about the reasonableness of the pricing mechanism ostensibly in use.

The average price for all BGM-71A Basic TOWs was \$3993, as shown in Table VI. The AMDF price of \$3169 is 20 percent lower than the average price. The final contract price of \$3491, which would appear to be a more reasonable number under the pricing regulations, is 13 percent below the average price.

The interviews indicated that few of the personnel involved in this episode were familiar with the Economy Act. Many were familiar with the pricing mechanism used under the Foreign Military Sales program, however. That mechanism starts with the cost of replacement. In the case of a Basic TOW, the starting point would be the current cost of a TOW II (about \$11,000), since Basic TOWs are no longer manufactured and a Basic TOW removed from the inventory would be replaced with a TOW II.

It is not, of course, reasonable to sell a 1970 Chevy for the price of a 1987 Cadillac. Under FMS, therefore, the replacement cost of a weapon is depreciated by taking into account its age. In the case of TOWs, the shelf life is about 16 to 20 years.

The staff recommends that the committee and the Department of Defense consider replacing the current pricing mechanism used for Economy Act equipment transactions with another mechanism, and further suggests that attention focus on the FMS pricing mechanism, which has the benefit both of rationality and of familiarity.

#### WHAT WAS A FAIR PRICE?

The question still remains as to what a fair and reasonable price for the TOW missiles would have been. Table VIII lists several different ways the TOW price might have been calculated.

TABLE VIII—ASSORTED POSSIBLE PRICES FOR TOW SALES TO IRAN

TOWs	Price	Total	Average
Price actually charged CIA:			
1508 71A2.....	\$3,169 + 300	\$6,965,752	3,469
500 71A1.....	3,169 + 300		
Appropriate price according to published AMDF figures:			
1508 71A2.....	8,435	16,937,480	8,435
500 71A1.....	8,435		
Price if clerical errors and depot modification pricing corrected:			
1508 71A2.....	$3,491 + 325$	9,676,028	4,819
500 71A1.....	7,843		

**TABLE VIII—ASSORTED POSSIBLE PRICES FOR TOW SALES TO IRAN—  
CONTINUED**

TOWs	Price	Total	Average
Price if average cost for TOWs used as base:			
1508 71A2 .....	3,993 + 325	8,459,544	4,213
500 71A1 .....	3,896		
Price if actual contract price for each individual lot used:			
360 .....	7,374 + 325	12,143,058	6,047
82 .....	4,412 + 325		
146 .....	4,412 + 325		
141 .....	3,169 + 325		
271 .....	3,491 + 325		
84 .....	7,374 + 325		
424 .....	7,374 + 325		
117 .....	5,382 + 325		
383 .....	5,382 + 325		

One could cite a multitude of other possible pricing methodologies—first-in-first-out, last-in-first-out—that are widely accepted. But the staff felt that the methodology used under the regulations for the Economy Act lack both logic and familiarity.

With regard to logic, the staff did not see how the final contract price represented anything other than the final contract price. it bears no relation to average price or the actual price of the item bought.

With regard to familiarity—which would tend to minimize errors—it would at first appear that the current methodology is sensible in that it piggybacks on an existing pricing system, namely the AMDF. But that has not meant familiarity since Economy Act transactions are not all that common. As the interviews showed, many of those supposedly working under the Economy Act really had little awareness of it. Furthermore, the AMDF involves tens of thousands of items; since it is primarily a vehicle for intra-service transactions, the prices do not appear to get much attention. A request that the Army spot check some major weapons in the AMDF produced six for which pricing history information was available. The Army judged that four were priced correctly, one (Vulcan) was priced at 60 percent less than warranted, and the remaining item (Redeye) was priced at 125 percent more than warranted.

A review of the Economy Act pricing mechanism would appear to be in order.

### IRANIAN ARMS CHRONOLOGY

June/July 1985

Draft NSDD (Robert McFarlane) discussed strategic dialog with Iran. Arms sale proposed. Secretaries of State and Defense opposed plan.

December 6, 1985

Secretary of Defense and President met to discuss arms for Iran. Secretary of Defense again opposed plan.

January 7, 1986

Secretary of Defense and President met again to discuss arms for Iran.

Friday, January 18, 1986

President signed "Finding". President directed Secretary of Defense to prepare arms shipment.

Saturday, January 18, 1986

Secretary of Defense directed Maj. Gen. Colin Powell, Senior Military Assistant to the Secretary of Defense, to execute mission under provisions of Economy Act, and Department of Defense was not to lose money in transaction.

Powell interpreted instructions as Basic TOW although neither the Secretary of Defense nor he were aware of variations of Basic TOWs.

AM

Powell met with Army Vice Chief of Staff, Gen. Max Thurman (Chief of Staff Gen. John Wickham out of town). Thurman was instructed to "be prepared" to make available 4,000 Basic TOWs to CIA in a short period of time. A minimum number of people is to be involved and transaction is to be closely held. The purpose of the transfer is not to be known by the Army, but the Army is to be fully reimbursed, and transaction was approved at highest command authority. Powell would later provide CIA point of contact. (Thurman recalled order was to ship 1,000 Basic TOWs on short order and 3,000 TOWs at some future time. He also recalled Powell's instruction as a direct order.)

AM

Thurman instructed Lt. Gen. Benjamin Register, Deputy Chief of Staff for Logistics (DCSLOG) to "be prepared" to ship 1,000 Basic "Vanilla" TOWs and 3,000 would be shipped later, find out location of stocks, and no telephone calls authorized. Register recalled also being instructed to keep records of costs and with whom the Army does business.

Saturday, January 18, 1986

General Thurman contacted his action officer, instructing him to keep record of who was working transaction and stated the Chief of Staff would be briefed upon his return this date.

AM

Lt. General Register contacted Maj. Chris Simpson and Mr. John Hill, DCSLOG Supply and Maintenance Officer. Mr. Hill researched Missile Distribution Plan to determine price, availability and condition code for TOWs. Simpson was to have minimum number of personal contacts and paperwork was to be kept to a minimum.

PM

Mr. Hill provided TOW stock numbers and model numbers to Major Simpson.

PM

General Register asked Major Simpson to determine the ultimate destination of the TOWs. Major Simpson contacted the CIA, which refused to provide destination information.

1330-1345

General Thurman briefed Chief of Staff Wickham on arms activities.

PM

General Register and Major Simpson met to begin processing arms shipment.

PM

Major Simpson contacted Col. Jim Lincoln, TOW Program Manager at Missile Command (MICOM) Redstone Arsenal, Alabama. Lincoln was instructed to prepare 1,000 Basic TOWs for delivery to a "customer". Major Simpson provided a price of \$3,169.

PM (may have been Sunday)

Colonel Lincoln contacted Mr. Chris Leachman, TOW Chief Logistician at MICOM, at home, regarding transaction. Leachman said he had adequate TOWs to satisfy requirement.

1400

Major Simpson advised General Register the Army could support this requirement.

Monday, January 20, or Tuesday, January 21, 1986

General Register instructed Maj. Gen. Vincent Russo, Deputy DCSLOG, to oversee the arms project. His instructions to Russo were:

1. 4,000 Basic TOWs to be transferred to CIA.
2. General Powell is OSD point of contact.
3. Tasking came from General Thurman
4. Be prepared to move on short notice.
5. Minimize paperwork and people.
6. Major Simpson is action officer in DCSLOG.

Gen. Richard Thompson, Commander, Army Materiel Command (AMC), contacted General Russo because of Colonel Lincoln's concern over the chain of command for this transaction. Russo alleviated Thompson's concerns by authenticating request for TOW missiles.

Major Simpson contacted an Army logistics officer who confirmed requirement, stock numbers, models, price and range of TOWs. The Army logistics officer advised shipments would take place in three increments spaced in two-week intervals over the next 45 days. The first delivery would be January 29. The Army

logistics officer said White House and Cabinet level personnel were involved and Economy Act would be used.

Major Simpson ascertained weights and cubes (transportation requirements) for shipment. Plan was to convoy arms by truck from Anniston Army Depot to Redstone Arsenal and then airlift them to a destination for final shipment. Air Force Military Airlift Command (MAC) aircraft would be used between Redstone Arsenal and an interim destination.

Monday, January 20, or Tuesday, January 21, 1986

Major Gen. Powell provided Maj. Gen. Russo with CIA point of contact.

First Week, January 20-26, 1986

Major Simpson derived code name "Snowball" for TOW.

Major Simpson expressed concern to Mr. Tom Taylor and Ms. Susan Crawford of Army General Counsel's Office over lack of documentation. Taylor cited provisions of new FY 1986 Intelligence Authorization Act which requires Congressional notification when \$1 million threshold is exceeded in providing defense articles to a foreign country. Simpson was also concerned whether the Economy Act was the correct law applicable in this situation.

Taylor provided same advice to General Russo on new Intelligence Authorization Act. Army General Counsel Susan Crawford said OSD's opinion was that notification responsibility rests with CIA.

At a meeting among Crawford, Russo, and Gen. William Suter, Army Deputy Judge Advocate, it was decided that Secretary of the Army John Marsh would be apprised of their concerns over pricing, the ultimate destination, and bypassing of the normal system.

General Russo called an Agency operations officer to discuss funding and details of transfer. An Agency operations officer said CIA had not made the final decision on the transfer.

First week

Colonel Lincoln advised by Major Simpson the request was for 4,508 TOWs, not 4,000. Lincoln advised his boss, Gen. Peter Burbules, Commander of Missile Command, of transaction.

Colonel Lincoln advised Simpson \$3,169 price was too low to replace current production TOW IIs. Believed Army should get about \$10,000 per weapon.

Major Simpson advised Maj. General Russo he disagreed with Colonel Lincoln on price and highlighted pricing regulations AR37-60.

Next day Major Simpson and an attorney in the office of the Army Chief of Staff met with Maj. General Russo and agreed the AMDF price (\$3,169) for a particular model TOW would be charged.

Mr. George Williams, TOW Deputy Program Manager, advised Major Simpson that 4,508 condition code A Basic TOWs were not available.

First Week, January 20-26, 1986

There are eight models of Basic TOW. The specified Basic TOW (BGM 71A) was being modified with a Missile Ordnance Inhibit

Circuit (MOIC). Mr. Leachman estimated the cost of modification at \$300 per weapon. Therefore, he provided the total cost for that TOW as \$3,469 per weapon. However, because this modification caused a model change and new stock number, the AMDF price unexplainably becomes \$8,435. In addition, only 2,000 MOIC modified BGM 71A were available for application against the 4,508 TOW requirement.

Simpson advised CIA that additional costs will have to be incurred by CIA because of the MOIC modification. CIA expressed concern over added costs. Simpson realized for the first time costs were not controlled by CIA.

Williams recommended converting the I-TOW to Basic TOW by changing (downloading) the warhead to meet remainder of requirement. Cost was about \$200 per weapon.

Major Simpson again contacted an Agency finance officer over additional costs. He expressed concern, but eventually agreed to added costs for downloading I-TOW warhead.

Maj. General Russo decided since shipments are to take place within 45 days, one consolidated bill will be submitted to CIA.

Mr. Leachman obtained price for both Basic model TOW's (BGM 71A and BGM 71A2) as \$3,169 and \$8,435, respectively. He does not recall raising the price difference with anyone.

#### First Week

Concern expressed to Lt. Gen. A. E. Brown (Director of the Army Staff) that a large number of weapons was being transferred; they did not know where they were going or how they were to be used. Brown recommended Maj. General Powell be advised. Powell said this is a CIA responsibility.

#### January 28, 1986

1,000 TOWs shipped by commercial truck from Anniston to Redstone in anticipation of January 29 delivery to CIA. Mr. Leachman signed for shipment.

#### January 29, 1986

Major Simpson was notified shipment would take place that date. He flew to Redstone. Because arrangements for follow-on transportation deteriorated, the shipment did not take place. Simpson returned to Washington.

#### January 28-February 13, 1986

TOWs guarded by Army Military Intelligence Company and the 515th Ordnance Company at Redstone.

#### February 11, 1986

Major Simpson received call from CIA requesting MAC air support from Redstone for February 13. MAC was unable to support request. CIA arranged transportation.

CIA notified Major Simpson transfer would take place February 13 at 1200 hours.

February 13, 1986

CIA fund certification letter received for 1,000 TOWs plus ancillary costs.

Major Simpson traveled to Redstone to effect transfer. Major Simpson signed transfer document.

Tom Taylor compiled memorandum on support to intelligence operations underlining the importance of congressional notification regarding transfer of articles or services exceeding one million dollars by an intelligence agency to a recipient outside that agency.

February 18, 1986

Lt. General Brown notation on his calendar "CIA needs legal advice re: Congressional notification."

February 24, 1986

Generals Russo, Suter, Carmen Cavezza, Military Assistant to the Secretary of the Army, and Ms. Crawford met with Secretary of the Army John Marsh. They expressed concern over the nature of request, lack of documentation, Congressional notification, and ultimate destination. Secretary Marsh instructed Russo to keep records and raise the issue of notification with the Office of the Secretary of Defense.

Lt. General Brown calendar notation: "OK not to notify Congress."

February 25, 1986

Lt. General Brown notation on "Russo memo that quotes statute."

General Russo memo advising that issue of receiver having responsibility to notify Congress put Army in difficult position. Office of Secretary of Defense has said "receiver is fully aware of its reporting responsibility."

End of February, 1986

Maj. General Powell provided the memorandum on Congressional notification to Admiral John Poindexter. Subsequently, Admiral Poindexter advised Secretary Weinberger that CIA had responsibility to notify Congress; a decision which was affirmed by the Attorney General.

March 12, 1986

Lt. General Brown calendar notation "Colin Powell letter on Snowball from Colin to Poindexter informing."

March 17, 1986

Maj. General Powell replaced by Vice Admiral Donald Jones as Senior Military Assistant to the Secretary of Defense.

April 9, 1986

Deputy Secretary of Defense William Taft IV called Army Chief of Staff Wickham on secure telephone advising that Hawk spare part line items will be provided to CIA under Economy Act.



Chief of Staff Wickham instructed Maj. General Russo to make Hawk spare parts line items available for CIA.

April 10, 1986

General Russo, Major Simpson, and a second Agency operations officer met to discuss a list of 234 requirements for spare parts. Instructions were same as in Snowball; i.e., minimum paperwork and personnel involved.

Simpson called this project Crocus.

Lt. Col. Larry Armbright, ODCSLOG, was given a list of items to identify and determine status.

Mr. Rosenthal (Army Material Command) and John Chapman and Bill Royers in the Hawk Program Managers Office at MICOM were given list of Hawk spare parts to identify and determine status. Mr. Nielsen, Defense Logistics Agency, was also given a list of items to research.

Problems developed in identifying certain stock numbers. Preliminary review revealed 15 items could not be identified, 11 items required more than 50 percent of DOD stocks, 15 items required all DOD stocks, and 9 items at zero balance.

Major Simpson advised the Agency logistics officer (CIA) that some items were not identifiable. The Agency logistics officer said to do the best possible to identify all items.

Mr. Chapman called and said many items were "pre-phase II PIP configured" and asked how many systems being supported.

Mid April, 1986

Simpson contacted the Agency logistics officer, who would not respond to questions on spare parts posed by Mr. Chapman.

Chapman obtained prices, obtained substitutes, and identified some previously unidentified stock numbers.

Simpson figured weights and cubes for equipment.

April 16, 1986

Lt. General Brown notation that "Agency wants 200-plus spare parts for I-Hawk.

April 18, 1986

Gen. Carl Vuono, Army Deputy Chief of Staff for Operations, prepared memo addressing concerns that the normal system was being bypassed and about legality of transfer.

April 22, 1986

Because of number of spare parts and disparate locations involved, Major Simpson suggested staging most parts at Red River Army Depot, Texarkana, Texas. CIA agreed to pay additional costs for pre-positioning parts.

Colonel Benchoff, Commander at Red River Army Depot in charge of staging Hawk spare parts.

April 25, 1986

The Agency logistics officer requested two AN/MPQ 46 Hawk radar sets at a cost of \$3,088,800 each.

Late April, 1986

Major Simpson checked availability of these radars. Found only two models in inventory were assets of the Iranian government. Because of the 1979 Iranian hostage crisis, these radars are the subject of International Court action and stored at Letterkenny Depot, Pennsylvania. Simpson found that several federal agencies (including DOD, State Department, Treasury Department) and the U.S.-Iranian Claims Tribunal would be involved in release of this equipment. Radars are part of the \$12 billion lawsuit Iran has against DOD.

Within 48 hours the second Agency operations officer notified General Russo that a "flap" had been caused by this inquiry. Further inquiry on these radars ceased.

The Agency logistics officer then asked if the radars could be tested.

The Agency logistics officer subsequently requested two state-of-the-art Hawk post phase II PIP configured radars and provided stock numbers.

April 29, 1986

All Army items pre-positioned at Red River Army Depot.

April 30, 1986

The second Agency operations officer was advised that support will be provided for 221 out of 234 items requested. (11 stock numbers were unidentifiable and 2 stock numbers were at zero balance.) Cost of these items will be \$4.4 million, including packing, crating, and handling.

May 6, 1986

Major Simpson was advised that when Crocus was executed, Assistant Chief, Logistics Division CIA, will hand carry funding letter in amount of \$4,337,426.24 for entire project.

May 9, 1986

The Agency logistics officer notified Simpson that the second delivery of 508 TOWs would take place on May 12. Simpson notified Colonel Lincoln.

May 13, 1986

General Russo told the Agency operations officer CIA would have to submit additional request since radars go beyond scope of spare parts.

Mid May, 1986

CIA provided funds certification letters for 508 TOWs.

May 16, 1986

CIA certification letter for Hawk spare parts received in amount of \$4,337,426.24. Execution of shipment on Project Crocus commenced.

May 19, 1986

508 TOWs left Redstone Arsenal. Lt. Col. Armbright signed accountability documents for Army.

May 20, 1986

General Russo instructed Major Simpson to bill CIA for shipments to date since transaction had not occurred within original timeframe.

CIA certification letter for \$24,000 to test AN/MPQ 46 radars received.

May 21, 1986

508 TOWs "close" destination.

May 23, 1986

CIA advised Lt. Colonel Armbright that last item received. Total weight of parts 45,244 pounds at a cost of \$4,337,426.24.

May 29, 1986

MICOM advised use of Iranian assets would have no impact on Army programs but release of Post Phase II radars (AN/MPQ-57) could have impact on Marine Corps program. Two radars could fit on C-141 or C-130 if certain modifications were made.

First Week of June, 1986

Missile Command provides combined bill for first two TOW shipments including handling and incremental costs.

Major Simpson hand-carried the bill to an Agency finance officer.

June 11, 1986

CIA provided payments in form of six checks, five just under \$1 million and one check significantly less, totalling about \$5,132,000.

June, 1986

Major Simpson departed Logistics Command for new assignment. Lt. Colonel Armbright assumed responsibility.

June, 1986

Discussions continued between DOD and CIA on availability of Hawk radars.

June 19, 1986

A new logistics officer took over as CIA project officer.

September 4, 1986

The new logistics officer provided an expanded list of Hawk requirements to DCSLOG. List included additional quantities of items originally provided.

September 8, 1986

Decided that this was a new requirement not included in original approval and that the Secretary of the Army should be advised release of items would be subject to his approval.

September 10, 1986

One item deleted from list. Action on radars still on hold.

October 10, 1986

Army General Counsel memo to Secretary of Army Marsh advising that original request for Hawk parts was not processed through the normal system and did not receive legal reviews required by Army. This request for additional support will result in an inventory zero balance on these items and impact Army air defense capability.

November 3, 1986

500 TOW missiles delivered to CIA.

### LIST OF INTERVIEWEES

ALPHABETICAL (ALL MILITARY OFFICERS ARE U.S. ARMY)

N.B. ALL TITLES AND RANKS AS OF PERIOD ABOUT WHICH PERSONS  
INTERVIEWED

Lt. Col. Larry W. Armbright, DCSLOG Directorate of Supply & Maintenance.

The Honorable Richard L. Armitage, Assistant Secretary of Defense (International Security Affairs).

Lt. Gen. Arthur E. Brown, Jr., Director of the Army Staff.

Maj. Gen. Peter Burbules (now lieutenant general), Commanding General, Missile Command, Redstone Arsenal.

Brig. Gen. Carmen J. Cavezza, Executive Officer to the Secretary of the Army.

Ms. Susan J. Crawford, General Counsel of the Army.

Mr. James B. Emahiser, DCSLOG Directorate of Supply and Maintenance.

Captain Richard E. Fay, Legal Counsel, Office of DoD General Counsel.

Mr. Anthony H. Gamboa, Legal Counsel, Office of DoD General Counsel.

Mr. John C. Hill (GM-13), DCSLOG Directorate of Supply and Maintenance.

Vice Admiral Donald S. Jones, Senior Military Assistant to the Defense Secretary (after Powell).

Col. Walter P. Lang, Defense Intelligence Agency.

Mr. Chris J. Leachman (GM-14), Chief of Logistics Division, TOW Project Office, Redstone Arsenal.

Col. James B. Lincoln, Chief, TOW Project Office, Redstone Arsenal.

Honorable John O. Marsh, Secretary of the Army.

Col. J. H. B. Peay (now brigadier general), Executive Officer to the Chief of Staff of the Army.

Major George Peirce (correct spelling), Legal Counsel, Office of Army General Counsel.

Maj. Gen. Colin Powell (now lieutenant general), Senior Military Assistant to the Secretary of Defense.

Lt. Gen. Benjamin F. Register, Jr., Deputy Chief of Staff for Logistics (DCSLOG).

Maj. Gen. Vincent M. Russo (now lieutenant general), Assistant Deputy Chief of Staff for Logistics (ADSCLOG).

Mr. Michael C. Sandusky (SES), Army Materiel Command, Assistant to the Deputy Chief of Staff for Resource Management.

Major Christopher Simpson, DCSLOG Directorate of Supply and Maintenance.

Honorable William Howard Taft IV, Deputy Secretary of Defense.

Mr. Thomas Taylor, Legal Counsel, Office of the Army General Counsel.

Gen. Maxwell Thurman, Vice Chief of Staff of the Army.

Gen. Carl Vuono, Deputy Chief of Staff for Operations.

Gen. John A. Wickham, Jr., Chief of Staff of the Army.

Mr. George Williams (GM-15), Assistant Chief, TOW Project Office.

and three other persons.

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